

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE**  
**ROCHESTER, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2009

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

**For the Year Ended December 31, 2009**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

ORGANIZATION  
2009

<u>Name</u>	<u>Representing</u>
<b>Board Members</b>	
Mark Piepho	Blue Earth County
Dave Hansen	Dodge County
Linda Tuttle	Freeborn County
David Hillier	Mower County
Ken Brown - (Bier alternate)	Olmsted County
Jake Gillen - (Plaisance alternate)	Rice County
Doug Johnson	Steele County
James Peterson	Waseca County
	2009 Chair
	2009 Vice Chair
<b>Technical Committee</b>	
Jean Lundquist	Blue Earth County
Terry Selthun	Dodge County
Randy Tuchtenhagen	Freeborn County
Jeff Weaver	Mower County
Scott Martin	Olmsted County
Paul Pieper	Rice County
Mary Overlee Olson	Steele County
Lee Williams	Waseca County
<b>Officer</b>	
Sharon Schriever	Executive Director

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Southeast Minnesota Recyclers' Exchange Joint Powers Board

We have audited the accompanying basic financial statements of the Southeast Minnesota Recyclers' Exchange Joint Powers Board as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the Southeast Minnesota Recyclers' Exchange Joint Powers Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Minnesota Recyclers' Exchange Joint Powers Board as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it. The Southeast Minnesota Recyclers' Exchange Joint Powers Board has not included in the MD&A condensed financial information derived from the financial statements comparing the current year to the prior year.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 17, 2010

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009  
(Unaudited)**

The Southeastern Minnesota Recyclers' Exchange (SEMREX) Management's Discussion and Analysis (MD&A) is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SEMREX's financial activity, (c) identify changes in SEMREX's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with SEMREX's financial statements.

**FINANCIAL HIGHLIGHTS**

- SEMREX's net assets decreased by \$15,487 (or 22 percent) during 2009. Net assets were \$71,180 and \$55,693 for 2008 and 2009, respectively.
- The operating revenue decreased by \$351,830 (or 48 percent) during 2009 and was \$725,956 and \$374,126 for 2008 and 2009, respectively.
- The total operating expenses decreased by \$321,881 (or 45 percent). Total operating expenses were \$714,251 and \$392,370 for 2008 and 2009, respectively.
- Net operating income decreased by \$29,949 (or 256 percent) during 2009. Operating income showed a gain of \$11,705 and a loss of \$18,244 for 2008 and 2009, respectively.

Membership

In 2009, SEMREX members consisted of eight full County members and five "marketing only" members. Marketing-only membership was up because SEMREX and Olmsted County began a revenue share program for businesses with shredded white office paper, which added three new members. Goodhue County also became a member to market textiles.

## Commodities Marketed

Total tons marketed were down 573 tons (or 11 percent) in 2009. Total tons marketed were 5,325 and 4,752 for 2008 and 2009, respectively. A significant factor in the decrease was that Rice County switched to single-stream collection and thus the majority of their material was marketed through a contracted hauler beginning in July. Rice County marketed 158 tons less in 2009 than in 2008, or a 22 percent decrease. The economic downturn also had a significant effect on the amount of material available for recycling.

Overall, 2009 prices were considerably lower than 2008. The average price for old corrugated cardboard (the primary commodity shipped by SEMREX) was down 44 percent from 2008 prices. A similar trend was seen across all of the commodities marketed through SEMREX.

## Marketing Fees

There were no changes made in the marketing fee structure from 2008 to 2009.

## **Basic Financial Statements**

The basic financial statements are designed to provide readers with a broad overview of SEMREX's finances in a manner similar to a private-sector business. SEMREX's financial statements use the full accrual basis of accounting and the economic resources measurement focus.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial resources for SEMREX. The statement is presented in the format where assets less liabilities equal net assets, formerly known as equity. Assets and liabilities are presented in order of liquidity. The focus of the Statement of Net Assets (the unrestricted net assets) is designed to represent the net available liquid (non-capital) assets, net of liabilities, for SEMREX.

The basic financial statements also include a Statement of Revenues, Expenses, and Changes in Net Assets (similar to an Income Statement). This statement includes revenues, such as sale of materials and interest on investments, and expenses, such as administrative and cooperative marketing. The focus of the Statement of Revenues, Expenses, and Changes in Net Assets is the change in net assets, which is similar to net income or loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for, operating activities and investing activities.

## **BASIC FINANCIAL STATEMENTS**

### **Major Factors Affecting the Statement of Net Assets**

Current assets increased by \$10,840, and current liabilities increased by \$26,327. Current assets (primarily cash and investments) will be used to extinguish the current liabilities.

### **Major Factors Affecting the Statement of Revenue, Expenses, and Changes in Net Assets**

The revenue from sale of materials decreased in 2009. The contributing factors were poor market prices due to an economic recession and the resulting decline in material available for recycling.

Cooperative marketing disbursements decreased in 2009. The decrease is proportionate to the sale of materials and is due to less material being marketed and significantly lower prices.

## **ECONOMIC FACTORS**

Significant economic factors affecting SEMREX are as follows:

- fluctuations in demand and market price for recycled materials; and
- local inflationary, recessionary, and employment trends, which can affect business profits and which, in turn, affect the amount businesses purchase, manufacture, or sell, which helps determine the amount of material sent to recycling markets.

## **FINANCIAL CONTACT**

The individual to be contacted regarding this report is Justin Tank, Solid Waste Accountant of Olmsted County Public Works Department, at (507) 328-7057. Specific requests may be submitted to Justin Tank, Olmsted County - Public Works, 2122 Campus Drive S.E., Rochester, Minnesota 55904-4744.

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## **BASIC FINANCIAL STATEMENTS**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

**Assets**

Current assets	
Cash and pooled investments	\$ 61,483
Accounts receivable - net	46,939
Due from other governments	3,054
	<hr/>
<b>Total Assets</b>	<b>\$ 111,476</b>

**Liabilities**

Current liabilities	
Accounts payable	\$ 10,519
Due to other governments	45,264
	<hr/>
<b>Total Liabilities</b>	<b>\$ 55,783</b>

**Net Assets**

Unrestricted	<b>\$ 55,693</b>
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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Operating Revenues</b>	
Charges for services	\$ 361,981
Miscellaneous	12,145
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 374,126</b>
<b>Operating Expenses</b>	
Contracted services	\$ 38,226
Other services and charges	14,601
Supplies	198
Payments to individuals	69,605
Payments to other governments	269,740
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 392,370</b>
<b>Operating Income (Loss)</b>	<b>\$ (18,244)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	2,757
	<hr/>
<b>Change in net assets</b>	<b>\$ (15,487)</b>
<b>Net Assets - January 1</b>	<b>71,180</b>
	<hr/>
<b>Net Assets - December 31</b>	<b>\$ 55,693</b>
	<hr/> <hr/>



**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

*EXHIBIT 3*

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 358,850
Payments to suppliers	<u>(366,043)</u>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (7,193)</b>
<b>Cash Flows from Investing Activities</b>	
Investment earnings received	<u>2,757</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (4,436)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b><u>65,919</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 61,483</u></u></b>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b><u>\$ (18,244)</u></b>
 <b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
(Increase) decrease in accounts receivable	\$ (18,578)
(Increase) decrease in due from other governments	3,302
Increase (decrease) in accounts payable	7,495
Increase (decrease) in due to other governments	<u>18,832</u>
<b>Total adjustments</b>	<b><u>\$ 11,051</u></b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u><u>\$ (7,193)</u></u></b>

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

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1. Summary of Significant Accounting Policies

The Southeast Minnesota Recyclers' Exchange's (SEMREX) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although SEMREX has the option to apply FASB pronouncements issued after that date to its activities, SEMREX has chosen not to do so. The more significant accounting policies established in GAAP and used by SEMREX are discussed below.

A. Financial Reporting Entity

SEMREX is an organization of counties focused on recycling and waste reduction. Informally allied since 1989, SEMREX was restructured in August 1997 as a Joint Powers Board, as provided by Minn. Stat. § 471.59. The Board has a chair and is composed of one representative from each of the nine members. The Board contracted with Olmsted County to act as fiscal agent and provide administrative services.

B. Financial Statement Presentation

SEMREX reports only one fund, which is used to account for all the financial resources of SEMREX. The financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of SEMREX. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or incidental activities.

**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to the time at which revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. SEMREX is accounted for using the accrual basis of accounting and the economic resources measurement focus. Sales of materials are recognized when the sale occurs. Materials sold are generated by the cooperative marketing program. The cooperative marketing program markets recyclable materials for private recyclers and government programs. It was developed to overcome the obstacles facing rural recyclers by providing the increased bargaining power and transportation efficiencies of large volumes, so that greater sales revenues can be obtained. SEMREX is funded by a five to ten percent brokerage fee on each load marketed through the program. Expenses for administration and cooperative marketing are recognized when the liability is incurred.

D. Cash and Cash Equivalents

Cash and cash equivalents are amounts SEMREX has on deposit with Olmsted County.

E. Net Assets

The unrestricted net asset account indicates the portion of net assets available for future period expenses.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

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2. Detailed Notes

Deposits and Investments

SEMREX's total cash and investments of \$61,483 are on deposit with Olmsted County and are included in Olmsted County's pooled cash and investments.

3. Summary of Significant Contingencies and Other Items

Risk Management

SEMREX is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. General liability is covered with a policy from the Minnesota Counties Intergovernmental Trust. This insurance was first purchased in 1998 with no changes since that time. Settled claims have not exceeded this coverage for the past three years.

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE  
ROCHESTER, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**INTERNAL CONTROLS**

ITEM ARISING THIS YEAR

09-1 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend the Southeast Minnesota Recyclers' Exchange design and implement procedures to establish internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

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REBECCA OTTO  
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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Board of Commissioners  
Southeast Minnesota Recyclers' Exchange Joint Powers Board

#### Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the Southeast Minnesota Recyclers' Exchange Joint Powers Board (SEMREX) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered SEMREX's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SEMREX's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SEMREX's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of SEMREX's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiency in internal control over financial reporting that we consider to be a significant deficiency described in the accompanying Schedule of Findings and Recommendations as item 09-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Minnesota Legal Compliance

We have audited the basic financial statements of SEMREX as of and for the year ended December 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except we did not test for compliance in deposits and investments and claims and disbursements, because these items were tested as part of the Olmsted County audit, and public indebtedness, because SEMREX has no debt.

The results of our tests indicate that, for the items tested, SEMREX complied with the material terms and conditions of applicable legal provisions.

This communication is intended solely for the information and use of the Board of Commissioners, management, and other within SEMREX and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 17, 2010